

Message Text

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SUBJ: COMPENSATION ARRANGEMENTS IN EAST-WEST TRADE

REF: STATE 139258

1. PER EMBOFF CONVERSATIONS WITH GOI OFFICIALS AND ITALIAN BUSINESS REPS, DO NOT BELIEVE THAT PRODUCT PAYBACK FACTOR HAS DIRECT BEARING ON GOI CREDIT POLICIES. GOI COMMERCIAL CREDIT LINES TO EASTERN COUNTRIES DO NOT DIFFERENTIATE BETWEEN PROJECTS WHICH INVOLVE COMPENSATION ARRANGEMENTS AND THOSE WHICH DO NOT.

2. COMPENSATION ARRANGEMENTS ARE, HOWEVER, IMPORTANT FACTORS IN CONTRACT NEGOTIATIONS BETWEEN EASTERN COUNTRIES AND ITALIAN FIRMS PARTICULARLY IN CASE OF LARGER AND MORE DIVERSIFIED ITALIAN COMPANIES SUCH AS ENI AND MONTEDISON WHICH ARE BETTER EQUIPPED TO ABSORB PROJECT PAYBACK IN EXCHANGE FOR LARGE INDUSTRIAL SALES TO COMMUNIST COUNTRIES.

3. IT FREQUENTLY THE CASE IN MANY EAST-WEST CONTRACTS IN ITALY THAT ITALIAN FIRM AGREES TO BUY A GIVEN PERCENTAGE OF THE OUTPUT OF AN INDUSTRIAL PLANT IT BUILDS IN AN EASTERN EUROPEAN COUNTRY. CLASSIC CASE WAS MONTEDISON'S 1973 \$500 MILLION CONTRACT TO BUILD SEVEN LARGE CHEMICAL

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PLANTS IN THE USSR NEGOTIATED SIMULTANEOUSLY WITH A CON-

TRACT TO BUY A SUBSEQUENT PORTION OF THEIR OUTPUT. ALTHOUGH SUCH PLANTS ARE NORMALLY FINANCED THROUGH GOI CREDITS, IT IS UP TO THE EASTERN COUNTRY TO DECIDE TO WHICH ITALIAN CONTRACTS THE GOI CREDIT LINE WILL BE APPLIED. THEREFORE THE APPLICABILITY OF ITALIAN LINES OF COMMERCIAL CREDIT TO CONTRACTS WITH OR WITHOUT ACCOMPANYING COMPENSATION ARRANGEMENTS IS NOT UP TO GOI.

3. THERE HAVE BEEN SOME CASES IN WHICH SPECIFIC GOI CREDITS WERE GRANTED AFTER CONTRACTS NEGOTIATED AND WHICH INVOLVED PRODUCT PAYBACK. CASE IN POINT WAS SOVIET PURCHASE IN LATE 1974 OF 2.5 MILLION METRIC TONS OF ITALIAN STEEL PIPES VALUED AT \$1.5 BILLION OF WHICH 65 PERCENT WAS TO BE PAID IN SOVIET RAW MATERIALS AND 35 PERCENT TO BE FINANCED THROUGH GOI CREDITS. HOWEVER, SUCH CREDITS ARE THE EXCEPTION AND WE DOUBT EXISTENCE OF COMPENSATION ARRANGEMENTS ARE SIGNIFICANT FACTOR IN GOI DECISION TO GRANT THEM.

4. ITALIAN CONTRACTS FOR SALE OF INDUSTRIAL GOODS TO EASTERN EUROPEAN COUNTRIES ARE NORMALLY TREATED, FOR FINANCING PURPOSES, AS SEPARATE COMMERCIAL OPERATIONS FROM ANY ACCOMPANYING PRODUCT PAYBACK COMMITMENTS. THEREFORE THERE ARE NO SPECIFIC FINANCING PROGRAMS RELATING TO COMPENSATION ARRANGEMENTS. VOLPE

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